

TAX FACTS

Information for Washington State's Business Community

Will you need help in January?

More than 300,000 businesses will file tax returns during the next several weeks. Many will call the Telephone Information Center or visit the Department's local offices to ask questions about specific tax applications or completing the Combined Excise Tax Return. If you need assistance during this busy period, you can help us provide better service by:

- ◆ Calling or visiting early in the month with your questions — before January 15th if possible;
- ◆ Checking office hours (see page eight) if you plan to visit one of our local offices — not all offices are open five days a week;
- ◆ Avoiding the hours of 11:30 a.m. to 1:00 p.m. Three-fourths of our staff members alternate their lunch hours during this time;
- ◆ Using our automated services — call 1-800-647-7706;
- ◆ Having your UBI-DOR tax reporting account number and tax return available;
- ◆ Totaling your receipts for each tax classification (retailing, wholesaling, etc.) ahead of time; and
- ◆ Staying on the line if you need to talk to a representative. We answer every call in the order received. ▲

Office hours change

Do you ever visit the Department of Revenue's Bremerton, Kennewick, Olympia, and Yakima field offices? If so, please note the new operating hours:

Bremerton	Open Tuesday, Thursday, and Friday 8 to 11:30 a.m. and 12:30 to 5 p.m. Closed Monday and Wednesday
Kennewick	Open Daily, 8 to 11:30 a.m. and 12:30 to 5 p.m.
Yakima	Open Daily, 8 to 11:30 a.m. and 12:30 to 5 p.m.
Olympia	Open Daily, 8 to 11:30 a.m. and 12:30 to 5 p.m.

Address and telephone information for these and the Department's other field offices appear on the back page of this publication. ▲

New look for annual tax return

To help make reporting taxes easier, the annual 1999 Combined Excise Tax Return has been redesigned. Depending on reporting history, annual filers will receive one of three annual tax returns:

- ◆ Annual Combined Excise Tax Return (Form REV 40 2406 A99 CETR) is similar to previous tax returns as it includes all business and occupation (B&O) tax reporting classifications and retail sales tax and use tax. However, lines for reporting various lodging taxes, public utility taxes, and other taxes have been removed from page two. Persons reporting under a variety of classifications will receive this version of the annual tax return.
- ◆ Addendum to the Annual Combined Excise Tax Return (Form REV 40 2406 A99ADD) is included with the tax return for persons needing to report lodging taxes, public utility taxes, and other taxes.
- ◆ Simplified Combined Excise Tax Return (Form REV 40 2406 A99SimpCETR) includes only the four most commonly used B&O tax reporting classifications along with sales tax and use tax. ▲

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Annual tax return in the mail

The Annual 1999 Combined Excise Tax Return and *Instructions for Completing the Annual 1999 Combined Excise Tax Return* were recently mailed to persons reporting annually. While it may seem early, we hope you'll take a few moments to think about the tax return now and avoid the last minute rush that frequently occurs around the due date. To help you, here are some helpful hints to completing the tax return:

✓Due Date

The due date for the 1999 annual Combined Excise Tax Return is Monday, January 31, 2000.

If you use the US Postal Service, the envelope must be postmarked on or before the due date to avoid a late payment penalty. If you personally deliver your tax return and payment, or use a commercial delivery service, it must be received in one of our offices by January 31 to avoid costly late payment penalties. Office hours and locations are listed on the back page of this publication.

✓No business activity or no tax due

You must file the tax return even if you did not have any business or you owe no tax. If you had no business, please check the "No Business Activity" box. You may also use the Department's 24-hour automated attendant, 1-800-647-7706, to file a "No Business Activity" tax return.

✓Small Business B&O Tax Credit

Don't forget to take the Small Business B&O Tax Credit if the amount of *business and occupation* tax you owe for the full year is less than \$840. A table for determining the amount of credit is included with the tax return.

For prerecorded information about the Small Business B&O Tax Credit, call *Tax Express* (1-800-334-8969, code 136).

✓Rounding off to whole dollars

You may find it easy to prepare your tax return if you round off to the nearest whole dollar by dropping amounts that are less than 50 cents and rounding up amounts that are 50 cents or more. For example, if gross sales/income for the year total \$25,475.28, enter \$25,475 on the tax return. Or, if gross sales/income total \$26,693.89, enter \$26,694 on the return.

If you round, do so for all amounts, including the calculated tax due. If you have to add two or more income figures to determine the gross amount to enter

on a line of the tax return, include cents and round off the total.

✓No deductions for business expenses

Washington's business taxes are generally based on the gross amount received or produced as opposed to the net income or net value. The term "gross amount" is a catch-all term for whichever of the following terms applies to your business: "gross income of the business," "gross proceeds of sales," or "value of products." The gross amount generally includes money and other consideration (the value of property, rights, and services). This means that there are no deductions for your costs of doing business.

✓Remember 1998 litter tax

Retailers, wholesalers, and manufacturers of certain products, as well as restaurants, drive-ins, and newspaper and magazine publishers owe litter tax on gross sales of products in the following categories:

- ◆ Food for human or pet consumption;
- ◆ Groceries;
- ◆ Cigarette and tobacco products;
- ◆ Soft drinks and carbonated beverages;
- ◆ Beer and other malt beverages;
- ◆ Wine;
- ◆ Newspapers and magazines;
- ◆ Household paper and paper products;
- ◆ Glass, metal, plastic or fiber containers;
- ◆ Cleaning agents;
- ◆ Toiletries; and
- ◆ Nondrug drugstore sundry products.

The Department's administrative rule, WAC 458-20-243 discusses each of the above categories and provides reporting instructions. To receive a copy of the rule, call the Telephone Information Center at 1-800-647-7706.

✓Local sales and use tax and special hotel/motel tax changes

During the past year, many local jurisdictions increased their local sales tax rates or began imposing a special hotel/motel tax for sales of transient lodging. Newly incorporated cities also started collecting local sales tax.

When completing the local sales tax section, please be sure you're reporting the correct location and rate. For assistance, please refer to the local sales and use tax and special hotel/motel tax sections of the *Instructions for Completing the Annual 1999 Combined Excise Tax Return*. If you know the U.S. Postal Service delivery address, you may also use the Department's Internet site, <http://dor.wa.gov>, to look up the proper location code and tax rate. The Geographic Information System's (GIS) lookup feature uses the postal address to search for and identify the proper location code and tax rate. To access GIS, use the Services hot button and then click on GIS.

✓Keep the worksheet

The annual tax return includes a worksheet. Be sure and keep the worksheet with your records.

✓Signing the tax return

Please sign and date the return and include a daytime phone number. Use the self-addressed envelope provided with the return to mail the original tax return. ▲



Rule changes

The Department of Revenue is responsible for administering most of the tax laws enacted by the Washington State Legislature. As a part of the responsibility, the Department publishes rules to assist taxpayers in accurately reporting their tax liability. To reflect changes in tax law and industry practices, these rules, Washington Administrative Code (WAC), often require revising through the rule-making procedure.

The following administrative rules have been adopted or repealed since the December 1999 (annual) issue of *Tax Facts*:

Adoption

WAC 458-16a-010	Nonprofit homes for the aging. (Property tax rule.) <i>Effective 2/23/99.</i>
WAC 458-16-280 (Fast Fax code 4280)	Art, scientific, and historical collections. (Property tax rule.) <i>Effective 9/19/99.</i>
WAC 458-16-282 (Fast Fax code 4282)	Musical, dance, artistic, dramatic and literary associations. (Property tax rule.) <i>Effective 9/19/99.</i>
WAC 458-16-320 (Fast Fax code 4320)	Emergency or transitional housing. (Property tax rule.) <i>Effective 7/5/99.</i>
WAC 458-18-010 (Fast Fax code 4010)	Deferral of special assessments and/or property taxes — Definitions. (Property tax rule.) <i>Effective 11/15/99.</i>
WAC 458-18-220 (Fast Fax code 4220)	Refunds-Rate of interest. (Property tax rule) <i>Effective 1/14/99.</i>

WAC 458-20-119
(Fast Fax code 2119)

WAC 458-20-131
(Fast Fax code 2131)

WAC 458-20-135
(Fast Fax code 2135)

WAC 458-20-136
(Fast Fax code 2136)

WAC 458-20-13601
(Fast Fax code 213601)

WAC 458-20-165
(Fast Fax code 2165)

WAC 458-20-167
(Fast Fax code 2167)

WAC 458-20-195
(Fast Fax code 2195)

WAC 458-20-207
(Fast Fax code 2207)

WAC 458-20-216
(Fast Fax code 2216)

WAC 458-20-222
(Fast Fax code 2222)

WAC 458-20-226
(Fast Fax code 2226)

WAC 458-20-231
(Fast Fax code 2231)

WAC 458-20-246
(Fast Fax code 2246)

WAC 458-20-261
(Fast Fax code 2261)

WAC 458-20-262
(Fast Fax code 2262)

WAC 458-20-263
(Fast Fax code 2263)

WAC 458-29A-100
(Fast Fax code 21001)

WAC 458-29A-200
(Fast Fax code 21001)

Sales of meals. (Excise tax rule.)
Effective 6/19/99.

Games of chance. (Excise tax rule.)
Effective 5/7/99.

Extracting natural products. (Excise tax rule.) Adopted on emergency basis on May 28, 1999, and readopted on September 23, 1999.

Manufacturing, processing for hire, fabricating. (Excise tax rule.) Adopted on emergency basis on May 28, 1999, and readopted on September 23, 1999.

Manufacturers and processors for hire—Sales and use tax exemption for machinery and equipment. (Excise tax rule.) Adopted on emergency basis on May 28, 1999, and readopted on September 23, 1999.

Laundries, dry cleaners, self-service laundries and dry cleaners. (Excise tax rule.) *Effective 7/10/99.*

Educational institutions, school districts, student organizations, and private schools. (Excise tax rule.) *Effective 2/7/99.*

Taxes, deductibility. (Excise tax rule.)
Effective 7/10/99.

Legal, arbitration, and mediation services. (Excise tax rule.)
Effective 7/15/99.

Successors, quitting business. (Excise tax rule.) *Effective 5/1/99.*

Veterinarians. (Excise tax rule.)
Effective 5/1/99.

Landscape and horticultural services. (Excise tax rule.) *Effective 5/15/99.*

Tax on internal distribution. (Excise tax rule.) *Effective 2/4/99.*

Sales to or through a direct seller's representative. (Excise tax rule.)
Effective 11:59 p.m., 12/31/99.

Exemptions and credits for ride sharing, public transportation, and nonmotorized commuting. (Excise tax rule.) *Effective 5/1/99.*

Retail sales and use tax exemptions for agricultural employee housing. (Excise tax rule.) *Effective 12/31/98.*

Wind, landfill gas, and solar energy generating facilities and use tax exemption. (Excise tax rule.)
Effective 6/19/99.

Overview and definitions (Leasehold excise tax rule.) *Effective 11/1/99.*

Taxable rent and contract rent. (Leasehold excise tax rule.)
Effective 11/1/99.

WAC 458-29A-400 (Fast Fax code 21001)	Exemptions. (Leasehold excise tax rule.) <i>Effective 11/1/99.</i>	WAC 458-57-510	Scope of rules. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-29A-500 (Fast Fax code 21001)	Liability. (Leasehold excise tax rule.) <i>Effective 11/1/99.</i>	WAC 458-57-520	Nature of Estate Tax. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-29A-600 (Fast Fax code 21001)	Collection and administration. (Leasehold excise tax rule.) <i>Effective 11/1/99.</i>	WAC 458-57-530	Property subject to estate tax. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-30-262 (Fast Fax code 4262)	Agricultural land valuation-Interest rate-Property tax component. (Rule pertains to Open Space Taxation Act) <i>Effective 1/14/99.</i>	WAC 458-57-540	Residents-Tax imposed. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-30-590 (Fast Fax code 4590)	Rates of inflation. (Rule pertains to Open Space Taxation Act) <i>Effective 1/14/99.</i>	WAC 458-57-550	Valuation. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-40-540 (Fast Fax code 3590)	Forest land values-1998. (Timber tax rule.) <i>Effective 1/29/99.</i>	WAC 458-57-560	Imposition of tax. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-40-660	Timber excise tax-Stumpage value tables-Stumpage value adjustments. (Timber tax rule.) <i>Effective 1/1/99 and 7/1/99.</i>	WAC 458-57-570	Tax returns to be filed. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-57-005 (Fast Fax code 2005)	Nature of estate tax, definitions. (Estate tax rule.) <i>Effective 8/21/99.</i>	WAC 458-57-575	Waiver or cancellation of penalties. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-57-015 (Fast Fax code 2005)	Valuation of property, property subject to estate tax. (Estate tax rule.) <i>Effective 8/21/99.</i>	WAC 458-57-580	Formula. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-57-025 (Fast Fax code 2005)	Determining the tax liability of nonresidents. (Estate tax rule.) <i>Effective 8/21/99.</i>	WAC 458-57-590	Property "located in" Washington. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-57-035 (Fast Fax code 2005)	Washington estate tax return to be filed-Penalty for late filing-Interest on late payments-Waiver or cancellation of penalty-Application of payment. (Estate tax rule.) <i>Effective 8/21/99.</i>	WAC 458-57-600	Reciprocity exemption. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-57-575 (Fast Fax code 5575)	Waiver or cancellation of penalties. (Estate tax rule.) Rule repealed subsequent to adoption of WAC 458-57-005, 458-57-015, 458-57-025, and 458-57-035. <i>Effective 2/8/99.</i>	WAC 458-57-610	Releases. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-61-090 (Fast Fax code 6090)	Date of sale-Interest and penalty (Real estate excise tax rule.) <i>Effective 7/31/99.</i>	WAC 458-57-620	Amended returns-Final determination. (Estate tax rule.) <i>Effective 8/21/99.</i>
	Repeal	WAC 458-57-630	Administration-Rules. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-20-157	Producers of poultry and hatching eggs. (Excise tax rule.) <i>Effective 4/24/99.</i>	WAC 458-57-640	Escheat estates-Heirs-How located and proof. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-20-206	Use tax, fuel oil, oil products, other extracted products. (Excise tax rule.) <i>Effective 4/24/99.</i>	WAC 458-57-650	Interest and penalties. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-20-225	Pattern makers. (Excise tax rule.) <i>Effective 4/24/99.</i>	WAC 458-57-660	Refunds. (Estate tax rule.) <i>Effective 8/21/99.</i>
WAC 458-30-360	Correction of erroneous classification or reclassification. (Property tax rule.) <i>Effective 9/12/99.</i>	WAC 458-65-010	Time limitations. (Unclaimed property rule.) <i>Effective July 31, 1999.</i>
		WAC 458-65-020	Use of department forms. (Unclaimed property rule.) <i>Effective 4/25/99.</i>
		WAC 458-65-030	Simultaneous reporting and remittance of unclaimed property. (Unclaimed property rule.) <i>Effective 4/25/99.</i>
		WAC 458-65-040	Maturity of automatically renewable instruments. (Unclaimed property rule.) <i>Effective 4/25/99.</i>
		Newly adopted rules are available on the Department's Internet site at http://dor.wa.gov under the "Rules/Laws" hot button. You may also request a rule by using the Department's automated telephone system. ▲	



1999 TAX LAW CHANGES



1999 Legislative Tax Changes

The 1999 Legislature made several changes to taxes and programs administered by the Department of Revenue. We hope the summary on the following pages will help you understand and comply with the new tax laws. If you have questions about the changes, please contact your local Department of Revenue office or the Telephone Information Center. Phone numbers for both are listed on the back page of this publication.

Business and occupation (B&O) tax/sales tax/use tax changes



Changes to the exemption for manufacturing machinery and equipment — Engrossed Substitute House Bill (ESHB) 1887, (Chapter 211, Laws of 1999) clarifies the legislative intent regarding the application of the sales and use tax exemptions for manufacturing machinery and equipment (RCW 82.08.02565 and 82.12.02565). The bill also extends the exemption to businesses testing tangible personal property for manufacturers or processors for hire.

Legislative Clarification: The legislation amends the definition of the term “to manufacture” (RCW 82.04.120) to include:

- ◆ Cutting, delimbing, and measuring felled, cut, or taken trees; and
- ◆ Crushing and/or blending of rock, sand, stone, gravel, or ore.

Machinery and equipment used to conduct these activities is eligible for the sales and use tax exemption at either fixed or temporary sites. Under the logging portion of the clarification, the person is engaged in manufacturing if cutting, delimbing, and measuring of the cut or taken trees occurs.

The legislation *excludes* from the definition of the term “to manufacture” the growing, harvesting, or production of agricultural products.

Because these portions of the law are intended to clarify administrative difficulties encountered in implementing the original legislation, they are retroactive to *July 1, 1995*.

Testing Laboratories: Effective July 25, 1999, businesses that provide testing operations for manufacturers and processors for hire will be eligible for the manufacturing machinery and equipment exemption. Testing means

activities performed to establish or determine the properties, qualities, and limitations of tangible personal property. Gross income from testing activities remains subject to B&O tax under the service and other activities classification.

Packing agricultural products—House Bill (HB) 2295 (Chapter 9, Laws of 1999, 1st Ex. Sess.) amends the definition of the term “to manufacture” (RCW 82.04.120) to *exclude* the following activities from the definition:

Packing of agricultural products, including sorting, washing, rinsing, grading, waxing, treating with fungicide, packaging, chilling, or placing in controlled atmospheric storage.

The legislation also amends Chapters 82.60 (Tax Deferrals in Distressed Areas) and 82.62 (Tax Credit for Eligible Business Project) to exclude the same activities from both programs.

The intent of the legislation is to exclude the listed activities both retroactively and prospectively. *Effective June 7, 1999.*

Disaster Victims’ Relief — Engrossed Substitute House Bill (ESHB) 2260, Chapter 311, Laws of 1999, provides a temporary sales tax exemption for labor and services for the following activities performed in a landslide area that has been declared a federal disaster area by the President of the United States:

- ◆ Moving houses;
- ◆ Demolishing houses; or
- ◆ Removing debris.

This sales tax exemption went into effect on May 14, 1999, and applies to events occurring on or after March 1, 1998. The exemption expires on July 1, 2000. (ESHB 2260 also provides tax incentives for rural counties. See page seven for an explanation of these incentives.)

Active Nonreporting Threshold Increased—House Bill (HB) 1741 (Chapter 357, Laws of 1999) raises the active nonreporting threshold. The Department may relieve persons whose annual gross income is under \$28,000 and who are not responsible for collecting any other taxes from the requirement to file the Combined Excise Tax Return. The Department notifies persons eligible for the active nonreporting status. If you believe you qualify and



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do not receive a notification letter, call the Department's Telephone Information Center at 1-800-647-7706.

This bill also authorizes the Department to accept electronic filing of Combined Excise Tax Returns and remittances. *Effective July 1, 1999.*

Nonprofit organizations—Substitute House Bill (SHB) 1623 (Chapter 358, Laws of 1999) clarifies certain exemptions for nonprofit organizations.

The bill redefines the term “fundraising activity” as it applies to B&O tax and retail sales tax exemptions for fundraising activities conducted by nonprofit organizations (RCW 82.04.3651 and 82.08.02573).

Fundraising activities include soliciting or accepting contributions of money or other property or activities involving the anticipated exchange of goods or services between the nonprofit organization and the person solicited. Fundraising activities exclude the operation of a regular place of business from which sales or services are provided during regular hours. However, the bill clarifies that this does not include sales of used books, used videos, used sound recordings or similar used information products in a library by a nonprofit organization if the proceeds are used to support the library.

This bill also provides a use tax exemption for amusement and recreation services provided by a nonprofit youth organization, as defined by RCW 82.04.4271, to organization members. This use tax exemption is comparable to the sales tax exemption provided by RCW 82.08.0291 for sales of amusement and recreation services by nonprofit youth organizations. *Effective August 1, 1999.*

Duplicate exemption certificates/annual summaries—Substitute House Bill (SHB) 1623 (Chapter 358, Laws of 1999) eliminates the need to file certain duplicate exemption certificates and annual summaries with the Department of Revenue.

Persons making tax-exempt sales of certain watercraft for use outside this state (RCW 82.08.0266 and 82.08.02665) must obtain an exemption certificate (WAC 458-20-238) from the buyer. The seller must maintain the exemption certificate with his or her records. This bill eliminates a previous requirement to file a copy with the Department. To verify the tax-exempt nature of the sale, however, the seller must continue to keep the exemption certificate for the

statutory period (a maximum of five years as provided by RCW 82.32.070).

Persons purchasing sales and use tax exempt machinery and equipment for direct use in generating electricity using wind, sun, landfill gas as the principal source of power (RCW 82.08.02567 and 82.12.02567) no longer need to file a duplicate exemption certificate or annual summary of purchases with the Department of Revenue. Persons making such tax-exempt purchases must give an exemption certificate (WAC 458-20-263) to the seller. *Effective August 1, 1999.*

Services rendered in respect to constructing—House Bill (HB) 2261 (Chapter 212, Laws of 1999) clarifies the phrase “services rendered in respect to constructing” for purposes of determining when a retail sale occurs. The intent of the bill is to resolve confusion due to inconsistencies between some Board of Tax Appeals decisions, Superior Court decisions, and Department determinations.

“Services rendered in respect to constructing” means contracting to be “responsible for the performance” of actual construction activities. “Responsible for the performance” means that the person is responsible for the construction without regard to who actually performs the construction. A person who only reviews work related to construction but who does not supervise or direct the work is not providing “services rendered in respect to constructing.”

A contract to perform professional services (such as engineering, architectural, surveying, etc.) will not be considered “services rendered in respect to constructing” if a subsequent contract is awarded separately to the same person. The contracts will be considered as awarded separately, if, at the time the professional services contract is awarded, the parties did not contemplate that the same person would be “responsible for the performance” of the contract.

When a single contract calls for both professional services and “services rendered in respect to constructing,” the total contract price is subject to tax according to the predominant activity performed under the contract. *Effective July 25, 1999.*

Sales/Use Tax Increase for Zoos and Aquariums—Engrossed Substitute House Bill (ESHB) 1547 (Chapter 104, Laws of 1999) authorizes the regional funding of zoos, aquariums and wildlife preservations through a


county-wide increase in the local sales tax and use tax. The tax increase must be jointly requested by a city (with a population of more than one hundred fifty thousand) and a metropolitan park district and then approved by the voters of the county (with a population of more than five hundred thousand and less than one million). At this time, only Pierce County/Tacoma is eligible to place the measure before voters.

The tax, if approved, will be in addition to any other taxes authorized by law and is limited to 0.1% of the selling price or value. Retailers will collect the tax and remit it, along with other local sales tax and use tax, to the Department of Revenue.

If approved by voters, a zoo and aquarium advisory authority will be created and authorized to expend the funds for zoo, aquarium, and wildlife preservation and display facilities that are currently accredited by the American zoo and aquarium association. The funds may be used to design, acquire, repair, re-equip, or improve such facilities. *Effective July 25, 1999.*

Creation and Funding of Public Facilities Districts—Substitute Senate Bill (SSB) 5452 (Chapter 165, Laws of 1999) authorizes the legislative authority of any town or city located in a county with a population of less than one million to create a public facilities district (PFD) to build, maintain and operate a regional center. The legislation provides PFDs authority to impose various taxes to fund projects. These taxes include voter approved sales and use tax, and an excise tax on lodging for premises with more than 40 units. PFDs may impose a local sales tax and use tax at a rate not to exceed 0.033 percent (to be deducted from the state sales and use tax) if construction begins before January 1, 2003. PFD's may also impose a property tax and a bond retirement levy with the approval of a 60 percent majority of the voters. PFDs are also authorized to charge taxes on admission and parking fees. Currently, only the PFD in Spokane county levies a local sales tax under this statute. *Effective July 25, 1999.*

Tax incentive programs

 **Tax Incentives for Rural Counties—**Engrossed Substitute House Bill (ESHB) 2260, Chapter 311, Laws of 1999, was passed to support infrastructure improvements and attract investment in rural counties. Previous legislative efforts were directed toward similar activities in distressed areas. This legislation

changes the focus to rural counties. A rural county is defined as a county having a population density of 100 or less persons per square mile.

The new law contains the following provisions:

Local Option Sales/Use Tax: The local option sales and use tax of .04% imposed in rural counties (RCW 82.14.370) is increased to .08% effective on August 1, 1999. The tax imposed under this provision is deducted from the state sales and use tax and returned to the county imposing the tax. Counties with a population density between 60 and 100 persons per square mile cannot impose the additional tax until January 1, 2000. The revenue generated from this tax may only be used for public facilities such as bridges, roads, water facilities, sewer facilities, telecommunications infrastructure, and other similar facilities. The rural county can only collect the tax imposed under this provision for 25 years.

Software: Businesses developing or manufacturing software in rural counties are eligible for a B&O tax credit for employment positions created after July 1, 1999. The credit amount is \$1,000 for jobs created before July 1st of the credit year. The credit can be taken in the first year the position is created and for four years thereafter. Jobs created after July 1st are initially eligible for a \$500 tax credit in the first year and \$1,000 in the four following years. The business taking the credit does not have to apply for the credit. They must maintain suitable business records to document their credit eligibility. A sole proprietorship with no employees can claim the credit for one person. In addition, the business must file an annual report with the Department of Revenue stating the number of positions for which credit is claimed, the type of position, the type of activity, and how long the person has been located in the county.

Tax credits earned each year cannot be carried forward to the next year. No credit can be taken after January 1, 2004. A person is not eligible for tax credit under this program if the person is receiving credit for the same position under the RCW 82.04.44525 (International Services Tax Credit) or the new help desk program (Chapter 82.62.RCW).

Help Desk Services: Businesses conducting information technology help desk services, either electronically or telephonically, from rural counties are allowed a B&O tax credit equal to the amount of B&O tax due from activities performed at the location in the rural county. No application is necessary to claim the tax credit. The business must maintain suitable records to document the





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activities that generate the tax credit and file an annual report with the Department of Revenue describing the help desk activities and the number of employees at that location.

Information technology help desk services consist of the following activities:

- ◆ Software and hardware maintenance
- ◆ Software and hardware diagnostics and troubleshooting
- ◆ Software and hardware installation
- ◆ Software and hardware repair
- ◆ Software and hardware information and training
- ◆ Software and hardware upgrade

The tax credit expires on December 31, 2003.

Electric Utilities: Certain light and power businesses servicing rural areas are allowed a public utility tax credit of up to \$25,000 per year for amounts contributed to an electric utility rural economic development revolving fund. The amounts in the fund are to be used for: a project designed to achieve job creation or business retention; nonelectrical infrastructure; adding or upgrading health and safety services in rural areas; accomplishing energy and water use efficiency improvements; or adding to or upgrading emergency services in rural areas. The total credit allowable in any calendar year is limited to \$350,000, on a first come, first served basis. Unused credits can be carried forward to the following year.



Rural Economic Development: Engrossed Second Substitute Senate Bill (E2SSB) 5594, Chapter 164, Laws of 1999, is an omnibus rural economic development bill. The intent of the legislation is to foster economic development in rural areas of the state through infrastructure improvements, a loan fund to stimulate the economy of rural areas, and changes to the distressed area sales and use tax deferral program and B&O tax credit program for new employment.

The Department of Community, Trade, and Economic Development and the Community Economic Revitalization Board works in partnership with local governments to administer the law's infrastructure and loan provisions. The Department of Revenue administers the distressed area tax incentive programs.

Under both the current law and this new legislation that becomes effective on August 1, 1999, eligibility for the sales and use tax deferral and B&O tax credit programs is determined by the location of the business using the incentive programs. However, this legislation replaces previous criteria with the following areas:

- ◆ Rural counties;
- ◆ Community Empowerment Zones (CEZ); and
- ◆ Counties that contain a CEZ (deferral program only).

A rural county is defined as a county with fewer than one hundred persons per square mile as determined on an annual basis by the state Office of Financial Management and published by the Department of Revenue. The rural county designation is effective from July 1st through June 30th of each year. A CEZ is an area approved under RCW 43.63A.700. There are currently five CEZs located in Bremerton, Tacoma, Yakima, and Seattle (where there are two). *Projects locating in counties adjacent to rural counties are no longer eligible for the deferral/exemption program.*

Projects locating in a CEZ or county containing a CEZ are required to create one new job for every \$750,000 of investment on which a deferral is requested. These positions must be filled by persons who, at the time they are hired, have their home in the CEZ. In addition, they must be hired after an application is filed with the Department of Revenue. If the required number of jobs is not created by the end of the calendar year following the year in which the project is certified as operationally complete, all deferred taxes are immediately due.

Eligible businesses locating in rural counties or CEZs are eligible for a B&O tax credit of \$2,000 or \$4,000 for each new job created in the eligible area. The \$2,000 credit is available for jobs that pay \$40,000 or less in wages and fringe benefits. The \$4,000 credit is available for jobs that pay more than \$40,000 in wages and fringe benefits. For projects located in a CEZ, the jobs must be filled by residents of the CEZ at the time they are hired. For a job to be eligible for the tax credit, the business must increase its current employment level by at least 15% in each year credit is requested.

The deferral/waiver program expires on July 1, 2004. The tax credit for job creation does not have an expiration date. *Effective August 1, 1999.*

Food fish/shellfish tax

Sea Urchins and Sea Cucumbers—Engrossed Second Substitute Senate Bill (E2SSB) 5658 (Chapter 126, Laws of 1999) increases the food fish/shellfish tax for sea urchins and sea cucumbers. The tax applies to the first commercial possession of enhanced food fish, including shellfish and anadromous game fish. Beginning January 1, 2000, through December 31, 2005, the rate for these products will be 0.0492 (4.92 percent). Beginning January 1, 2006, the rate will decrease to 0.0255 (2.55 percent).

E2SSB also changes the requirements for dive fishery licenses and fees and imposes surcharges and restrictions on new licenses. For information about dive fishery licenses and requirements, please contact the Department of Fish and Wildlife at (360) 902-2456. *Effective July 25, 1999.*

Property tax changes

Low Income Rental Housing Property Tax Exemption—Substitute House Bill (SHB) 1345 (Chapter 203, Laws of 1999) provides a tax exemption for real and personal property owned or used by a nonprofit organization to provide rental housing for very low-income households. The exemption begins with taxes assessed in 1999 and collected in 2000. The nonprofit organization must be exempt from federal taxes under Section 501(c) IRC and must be the beneficiary of the tax exemption. For the tax exemption to fully apply, 75 percent of the dwelling units must be used to provide housing to “very low-income households” as that term is defined by the federal department of Housing and Urban Development (HUD).

For more detailed information about this exemption, contact the Property Tax Division of the Department of Revenue at 360-753-1382 or your local county Assessor’s office. *Effective July 25, 1999.*

Forest tax


Timber Tax Credit—Engrossed Substitute House Bill (ESHB) 2091 (Chapter 4, Laws of 1999 1st special session) and House Bill (HB) 2303 (Chapter 5, Laws of 1999 1st special session) combine to allow a credit against the timber tax for timber harvested after January 1, 2000, under a forest practices notification application, filed or approved by the Washington State Department of Natural Resources, and subject to enhanced

aquatic resources requirements. The amount of the credit is 16 percent of the tax due from persons filing as small harvesters and 0.8 percent of the stumpage value for others. The amount of credit claimed by a taxpayer who is not a small harvester shall be reduced by the amount of any compensation received from the federal government for reduced timber harvest due to enhanced aquatic resource requirements. Refunds cannot be given in place of credits. Credits cannot be claimed in excess of tax owed. *Effective August 18, 1999.*

Leasehold excise tax

Leasehold excise tax exemption and clarification—Engrossed Substitute Senate Bill (ESSB) 5661 (Chapter 220, Laws of 1999) changes when agricultural products are valued for the purpose of determining contract rent with respect to product leases. Under the legislation, value is determined to be the value on the date agricultural products are sold. Previously, agricultural leases were valued at the place of delivery as of the 15th of the month. The legislation also clarifies that the term “product” for exemption purposes includes natural resource products such as cut or picked evergreen foliage, cascara bark, wild edible mushrooms, native ornamental trees and shrubs, ore and minerals, natural gas, geothermal water and steam, and forage removed through the grazing of livestock. *Effective July 25, 1999.*

Real estate excise tax

 **Transfers of controlling interest** — House Bill (HB) 1664 (Chapter 209, Laws of 1999) revises certain applications of the real estate excise tax on transfers of controlling interest in entities owning real property within Washington State. As provided by RCW 82.45.010, a transfer of controlling interest occurs when 50 percent or more ownership of an entity (corporation, partnership, or other entity) is transferred or acquired within a one-year period.

This bill provides that the transfer of controlling interest in real estate using a multiple-step process within a 12-month period is subject to the real estate excise tax. However, the tax will not apply when a person receives property they originally contributed to the entity or receives cash or personal property in exchange for their interest and they did not originally contribute real property or belong to the entity when the property was purchased. *Effective July 25, 1999.*





Other legislation

Moratorium on local taxation of Internet service providers continued—House Bill (HB) 2081 (Chapter 307, Laws of 1999) extends the 1997 prohibition on cities and towns from imposing any *new taxes or fees* on Internet Service Providers (RCW 82.04.297). This bill extends the prohibition until July 1, 2002. Currently, a city or town may tax Internet service providers actually located in their jurisdiction under generally applicable business taxes or fees, at a rate not to exceed the rate applied to a general service classification. *Effective July 25, 1999.*

Sales of Export Cigarettes—Engrossed Senate Bill (ESB) 5897 (Chapter 193, Laws of 1999) prohibits the sale, possession, or transportation of cigarettes manufactured for use outside the United States or which do not meet the federal cigarette labeling law.

No cigarette stamp may be affixed to a package of cigarettes if it does not comply with the Federal Cigarette Labeling and Advertising Act, if the cigarettes are intended for sale outside the United States, or if the labels are altered.


Violation of the law is a gross misdemeanor, in addition to being a deceptive practice under the Consumer Protection Act. Aircraft, vehicles, or vessels used to transport the cigarettes, along with the cigarettes, are subject to seizure and forfeiture. Seized cigarettes shall be destroyed. *Effective May 5, 1999.*




Proof of Payment of Taxes on Timber Sales—Substitute Senate Bill (SSB) 5651 (Chapter 51, Laws of 1999) requires that when the Department of Natural Resources sells timber by contract that includes a performance bond, the purchaser must provide proof that all taxes relating to the contract have been paid before the bond will be released.

The county treasurer must provide certified evidence that the taxes have been paid, clearly disclosing the sale contract number, within thirty days of payment. *Effective July 25, 1999.* ▲



Special Notices detail differences

Since the December 1998 issue of *Tax Facts*, the Department of Revenue has issued special notices discussing various issues, including new legislation. This symbol  identifies notices addressing new legislation. Special notices are also available for viewing and downloading from the Department's Internet home page: <http://dor.wa.gov>. You may also use the Department's automated phone system to request a copy be mailed or faxed to you (see 24-hour automated services, page 11).

Fast Fax Code	Title	Issue Date
765	Important Information for Retailers Making Sales to the US Government	December 14, 1998
766	Reminder of Litter Tax Change - Litter Tax Due Each Return	January 25, 1999
769	 Tax Incentives for Rural Counties	July 30, 1999
770	 Real Estate Excise Tax and Transfers of Controlling Interest	June 15, 1999
771	 Manufacturing Machinery and Equipment Exemption Refund for Logging and Aggregate Businesses	June 28, 1999
772	Use Tax Obligation of Physicians	June 28, 1999
776	Public Utility Tax Credit	July 30, 1999
777	Use Tax Obligations of Dentists	October 4, 1999
778	New Buyers' Retail Sales Tax Exemption Certificate	November 8, 1999



Bottled water taxable

There has been some confusion about whether the sales tax applies to bottled water. Some feel that it is a "food product" and, therefore, exempt.

In 1978, the sales tax on food products was repealed through an initiative process. The law itself was drafted by a coalition of citizen groups, placed on the ballot, and approved by the state's voters. As enacted, the law specifically excludes such products as bottled water, carbonated beverages, and alcoholic beverages from the definition of "food products" for sales tax purposes.

This does not mean that it has no nutritional value or it provides no nourishment. It simply means that bottled water is not treated as food for purposes of the tax exemption. Retailers selling bottled water must continue to collect the tax. ▲

Learn about taxes:

Attend a New Business Outreach Workshop

At a New Business Outreach workshop, you'll learn about the state excise taxes that apply to your business, how to meet record-keeping requirements, and how to properly complete the Combined Excise Tax Return. Seating is limited, so call in advance to reserve your spot. Let us know, when you call, if you need any special accommodations. If you don't see a workshop scheduled in your area, call the Department's Telephone Information Center or your local office for information on future workshops. Local office telephone numbers are listed on the last page of this publication.

Register for a New Business Outreach Workshop by calling the contact number for the location nearest you.



New Business Outreach Schedule			
Date	Location & Registration	Address	Time
Jan. 12	Vancouver (360) 260-6176	Dept. of Revenue Training Rm. 8008 N.E. Fourth Plain Blvd. Ste. 340	1:00-4:00
Jan. 19	Spokane (509) 482-3805	Dept. of Revenue Northtown Office Bldg. 8th Fl., 4407 N. Division	8:30-11:30; 1:30-4:30
Jan. 20	Bellevue (425) 452-6851	Bellevue City Hall Council Conference Rm. 11511 Main Street	1:00-4:00
Jan. 20	Bellingham (360) 676-2068	Whatcom Co. Public Library 5205 Northwest Rd.	1:00-4:00
Jan. 26	Olympia (360) 753-1551	Dept. of Revenue Target Place Complex 2735 Harrison Ave. N.W.	9:00-12:00
Feb. 16	Vancouver (360) 260-6176	Dept. of Revenue Training Rm. 8008 N.E. Fourth Plain Blvd. Ste. 340	1:00-4:00
Feb. 16	Spokane (509) 482-3805	Dept. of Revenue Northtown Office Bldg. 8th Fl. 4407 N. Division	8:30-11:30; 1:30-4:30
Feb. 22	Bellingham (360) 676-2068	Whatcom Co. Public Library 5205 Northwest Rd.	1:00-4:00

The schedule is available on the Department's Internet site, <http://dor.wa.gov>. Use the Services hot button to access the schedule.

24-hour automated services



The Department of Revenue's Telephone Information Center offers several automated services. With the exception of *Tax Express* and Revenue's Internet home page, you can access any of these services by calling 1-800-647-7706. Listen to the menu and select the option you wish to use.

Fast Fax — transmit documents directly to your fax machine. For a list of available documents, enter code 500#. To bypass menu selections, call (360) 786-6116.

Workshops — call to attend one of the spring or fall UBI Business Information Workshops.

Vehicle or vessel fraud — report vehicle or vessel licensing fraud.

Address changes — notify us if you have moved or changed your mailing address.

Business closures — notify us if you have closed or sold all or part of your business. If you've sold your business, tell us who you sold the business to and whether you'll continue to do business under your UBI/tax registration number.

Master Applications — request a new Master Application if you're changing your business structure (legal entity), changing or adding a trade name, opening a new location, reopening a closed business, divorcing and your spouse is no longer responsible for the business, changing your principal product or service and a license from another agency is required, or transferring the majority of a corporation's stock to different individuals.

Copies of rules, laws, or other departmental publications — request a rule, law, or other publication. An order form listing the Department's fact sheets and brochures is available via *Fast Fax*, code 501#.

Proposed rules — leave informal comments on proposed rule changes or ask to be placed on a mailing list to receive notice of future proposed rule-making actions.

Delinquent notices/no tax returns — clear the delinquency if you have received a delinquent notice and you have no business to report.

Duplicate tax returns — request a new tax return be faxed or mailed if you've misplaced your tax return. Have your UBI/tax registration number ready when calling.

Tax Express — listen to prerecorded tax information by calling 1-800-334-8969. To listen to the topic of your choice, enter the three-digit code. To receive a list of topics and codes, call 1-800-647-7706 and leave a message with the automated voice attendant.



Revenue's web site — see what's new on our web site: <http://dor.wa.gov>

**Taxpayer Services Division
Washington State Department of Revenue
PO Box 47478
Olympia WA 98504-7478**

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We want to help you. For assistance, please call the location nearest you or the Telephone Information Center at 1-800-647-7706.

Department of Revenue Field Offices

ABERDEEN (360) 533-9312

110 W Market St
PO Box 1018 Zip: 98520-0209
M/F 8am-11:30am, 12:30pm-5pm,
T/Th closed, Wed. 1pm - 5 pm

BELLINGHAM (360) 676-2114

1904 Humboldt St., Suite A
PO Box 1176 Zip: 98227-1176
M-F 8am-11:30am, 12:30pm-5pm

BREMERTON (360) 478-4961

4841 Auto Ctr Way, Suite 201
Zip 98312-4394
Mon. & Wed. closed, Tues, Thurs, & Fri
8am-11:30am, 12:30pm-5pm

EVERETT (425) 356-2911

11627 Airport Rd Suite B
Zip: 98204-8714
M-F 8am-5pm

KENNEWICK (509) 585-1501

22 West Kennewick Ave
PO Box 7207 Zip: 99336-0616
M/F 8am-11:30am, 12:30pm-5pm

OLYMPIA (360) 753-3181

Target Place Complex
2735 Harrison Ave NW Suite 440
PO Box 12900 Zip: 98508-2900
M/F 8am-11:30am, 12:30pm-5pm

PORT ANGELES (360) 457-2564

734 East First Street, Suite B
PO Box 400 Zip: 98362-0064
M/F 8am-11:30am, 12:30pm-5pm

RENTON (425) 277-7300

919 SW Grady Way., Suite 150
PO Box 877 Zip: 98057-0877
M-F 8am-5pm

SEATTLE (206) 956-3000

2101 4th Ave, Suite 1400
Zip: 98121-2300
M-F 8am-5pm

SPOKANE (509) 482-3800

4407 N Division, Suite 300
Zip: 99207-1685
M-F 8am-5pm

TACOMA (253) 593-2722

3315 South 23rd Street, Suite 300
Zip: 98405-1605
M-F 8am-5pm

VANCOUVER (360) 260-6176

8008 NE 4th Plain Blvd, Suite 320
PO Box 1648 Zip: 98668-1648
M-F 8am-5pm

WENATCHEE (509) 663-9714

630 N Chelan Ave., Suite B3
PO Box 220 Zip: 98807-0220
M-F 8am-11:30am, 12:30pm-5pm

YAKIMA (509) 575-2783

1714 S 16th Ave Zip: 98902-5713
M/F 8am-11:30am, 12:30pm-5pm



<http://dor.wa.gov>

Prepared by the Taxpayer Services Division